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No. 89-896

Supreme Court, U.S.

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IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1989

RED BARON - FRANKLIN PARK, INC., *and*  
FUN FACTORIES OF OHIO, INC.,  
*Petitioners,*

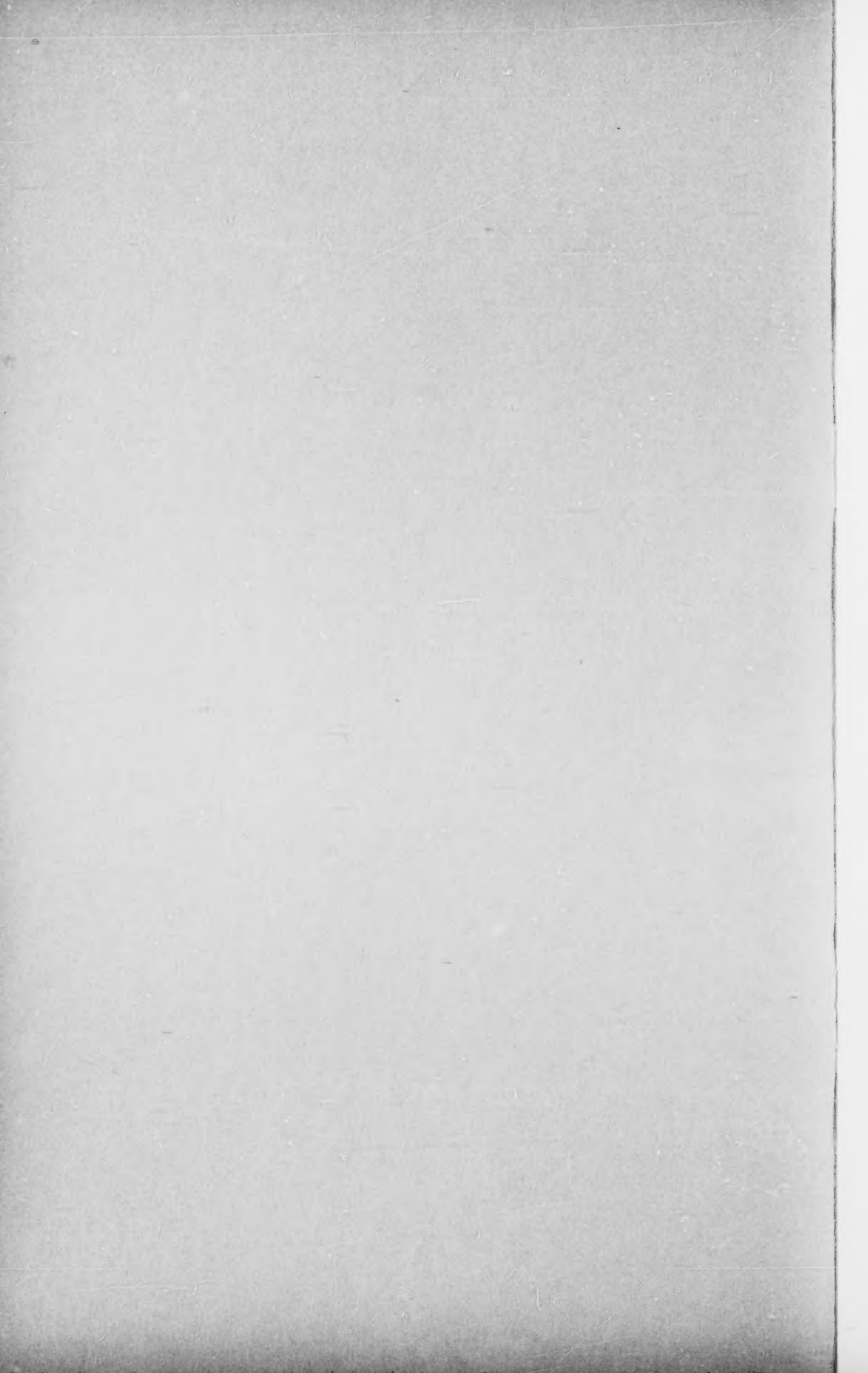
*v.*

TAITO CORP. *and* TAITO AMERICA CORP.,  
*Respondents.*

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FOURTH CIRCUIT

REPLY BRIEF FOR THE PETITIONERS

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## TABLE OF AUTHORITIES

	<u>Page</u>
<i>Aro Mfg. Co. v. Convertible Top Replacement Co.</i> , 377 U.S. 476 (1964).....	2, 3
<i>Met-Coil Sys., Inc. v. Korners Unlimited, Inc.</i> , 803 F.2d 684 (Fed. Cir. 1986).....	2
<i>NEC Electronics v. Cal Circuit Abco</i> , 810 F.2d 1506 (9th Cir.), <i>cert. denied</i> , 108 S. Ct. 152 (1987).....	5
<i>Sony Corp. v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984).....	3
<i>Twentieth City Music Corp. v. Aiken</i> , 422 U.S. 151 (1975).....	6
<i>United Artists Television, Inc. v. Fortnightly Corp.</i> , 377 F.2d 872 (2d Cir. 1967), <i>rev'd on other</i> <i>grounds</i> , 392 U.S. 390 (1968).....	4
<i>United States v. Univis Lens Co.</i> , 316 U.S. 241 (1942)....	2, 3
<i>Universal Film Mfg. Co. v. Copperman</i> , 218 F. 577 (2d Cir.), <i>cert. denied</i> , 235 U.S. 704 (1914).....	4



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1. Taito erroneously describes the ruling below on estoppel. The court of appeals clearly ruled in its first opinion (App. 19a-20a) that "Taito may be fairly said to know that the circuit boards have utility only in the hands of someone who plans to exploit them commercially," a method of exploitation that the court held was "public performance" under the copyright law. "Thus by selling the boards," the court went on, but for one supposed fact it follows that "Taito must intend to transfer the performance right, or must become estopped to deny that result, or must waive its right to claim infringement." The one supposed fact that negated the conclusion was that

“Taito did attempt to limit the performance right geographically to Japan” by a restrictive notice (App. 20a, n.4; see App. 15a). With or without the words, “so the argument runs,” that is still what the Fourth Circuit held below in its first opinion.

However, the restrictive notice did not exist; no one was able to provide a record citation for it, for there is none. The court of appeals therefore withdrew its original finding that there was a restrictive “Japan only” notice and modified its opinion (App. 24a-25a). But the lower court did not pause to explain why it still considered that Taito was not estopped, even though Taito sold boards that “Taito may be fairly said to know” have utility only for commercial public-performance use.

Accordingly, the opinion below gives a rationale (albeit, we believe, erroneous) why the *exhaustion doctrine* does not prevent Taito from suing purchasers of its goods when they use the goods for what is their only utility. But the court’s modification (App. 24a-25a) of the opinion below completely erased any possible rationale why Taito was not *estopped* or similarly precluded from suing such purchasers. The opinion gives no rationale and there is none. It is wholly unconscionable for a copyright owner to sell goods that have only one utility and then sue some purchasers (those who will not yield to a tie-in) for copyright infringement for using the goods for that one utility. The doctrine of estoppel (or implied license or waiver) prevents that inequitable result. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484, 497 (1964); *United States v. Univis Lens Co.*, 316 U.S. 241, 249-51 (1942); *Met-Coil Sys., Inc. v. Korners Unlimited, Inc.*, 803 F.2d 684, 685-86 (Fed. Cir. 1986).

Taito incorrectly states that Red Baron argues that there is an estoppel merely “by virtue of a first sale” without more (Br. in Opp. 17). Red Baron makes no such argument. Red

Baron argues that there is an estoppel here, because Taito sold printed circuit boards whose ordinary, customary, and indeed only use is for public performance. *Aro, supra; Univis, supra*. Estoppel and first sale/exhaustion are distinct, but on occasion overlapping, legal doctrines; the case at bar happens to present a fact pattern to which each doctrine applies. But the reason that there is an estoppel (or implied license or waiver) here is not that there is a first sale, but rather that the printed circuit boards that Taito sold have only public-performance utility. In *such* circumstances, the seller of copyrighted goods is estopped from denying the purchaser the only value of the goods purchased.

2. Taito argues (Br. in Opp. 16) that this Court should disregard its own and lower courts' patent decisions on estoppel and exhaustion, on the theory that patents and copyrights "are not identical twins." Surely, they are not. But the very decision that Taito cites for this point applied patent law principles to a copyright case because both systems embodied similar policies; indeed, the very footnote that Taito cites is attached to this Court's statement in the text of its opinion that it is appropriate to apply patent law principles to the case before the Court because of the "historic kinship" of patent and copyright monopolies. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 & n.19 (1984).

In the present case, the question is what legal inference is to be drawn when the owner of an intellectual property monopoly sells goods with a sole utility: Is it to be inferred that the purchaser is entitled to use the goods for that purpose, or is it part of the lawful monopoly of the seller to withhold that use? It makes no difference to the relative equities of the parties whether the intellectual property right is patent law's general use right or copyright law's more specific public performance use right. The question is the

same: Should the purchaser be allowed to use the goods for their only useful purpose? Does the fact that there is a distinct use right, as part of the patent and copyright monopolies, deprive the purchaser of the right to use the purchased goods for their sole utility? This Court's and lower courts' patent decisions clearly say "No." Until now, no lower court had held that there was no estoppel or implied license in a like copyright case. The legal question is the same, and the guiding legal principle is the same. This Court's patent decisions should therefore govern: the purchaser is entitled to use the goods for what is their sole utility.

3. The decision below is in clear conflict with the Second Circuit. *Universal Film Mfg. Co. v. Copperman*, 218 F. 577 (2d Cir.) *cert. denied*, 235 U.S. 704 (1914). Regardless of what Taito says (Br. in Opp. 18) that a Maryland district court thought the Second Circuit meant in *Copperman* the Second Circuit itself has expressly stated the opposite. The Second Circuit explicitly said that it held in *Copperman* that a copyright owner's sale of a print of a motion picture film conveys the right to perform the film in public for profit. *United Artists Television, Inc. v. Fortnightly Corp.*, 377 F.2d 872, 882 (2d Cir. 1967) *rev'd on other grounds*, 392 U.S. 390 (1968) (conduct not performance).

4. Taito objects to Red Baron's pointing out that Taito has engaged in equipment tie-ins and that the decision below allows Taito to continue to force that tie-in on U.S. video game operators by stopping them from engaging in parallel importation of genuine Taito printed circuit boards. By stipulation, Red Baron agreed not to pursue its claims for injunctive and damages relief against the tie-in. But the record is the record, and the record on Taito's motion for summary judgment (granted by the Fourth Circuit) shows without controversion that Taito forced an equipment tie-in on U.S. customers for



this video game (see, e.g., JA 21-22, 58, 150-51, App. 15a, n.1). There was no stipulation that the undisputed facts about the tie-in are to be expunged from the record or that they must not be considered in evaluating the impact of Taito's copyright arguments. There was no stipulation that the trial court's judgment in favor of parallel importation, which the Fourth Circuit effectively aside (Pet. 13), should be ignored.

The court below held that when copyright owners sell copyrighted goods the owners keep an unextinguished public performance right, regardless of the fact that the goods have no other utility. An important consequence of that interpretation of the copyright law is that it leaves purchasers of such goods at the mercy of foreign cartels who choose to impose tie-ins and other discriminatory practices on U.S. customers, and to suppress parallel importation, as here. See *NEC Electronics v. Cal Circuit Abco*, 810 F.2d 1506, 1511 (9th Cir.), *cert. denied*, 108 S. Ct. 152 (1987). To the extent that policies favoring or disfavoring abusive use of copyright and other intellectual property monopolies affect statutory interpretation, that aspect of the record below is relevant.

Taito also suggests that there really is record support for its claim that it used a "Japan only" notice (Br. in Opp. 8, n.4). Significantly, Taito offers no record cite to support its claim of the alleged notice. There is none. There is not one iota of record to support the claim of a "Japan only" notice; the only thing in the record is that Taito sold the boards outright (Pet. 4 & n.4).

5. Finally, as to singing in the shower (Br. in Opp. 12), the legal theory of the Fourth Circuit makes singing in a shower a "public performance" if the shower is located in a YMCA or in a high school gymnasium. For that matter, singing "Happy Birthday to You" (or any other copyrighted song) to one's spouse or companion in a restaurant is also a public perfor-

mance, according to the way the Fourth Circuit interprets the copyright law. In each of those cases, the "performance" occurs in a place open to the public or where persons gather who are outside of a normal circle of a family and its social acquaintances. The singers are therefore all copyright infringers, under the Fourth Circuit's interpretation of the statute, as are unauthorized player-performers of copyrighted video games in arcades and 7-11's. If that is an appropriate way to interpret the Copyright Act, this Court's decision in *Twentieth City Music Corp. v. Aiken*, 422 U.S. 151, 155 & n.4 (1975), should give way to that of the Fourth Circuit. If not, certiorari should be granted to correct the error below.

Respectfully submitted,

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